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July 30, 2002

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Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
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FROM: J. Tyler McCauley *tm*
Auditor-Controller

SUBJECT: **DEPARTMENT OF CHILDREN AND FAMILY SERVICES FISCAL
REVIEW – FOURTH RECOMMENDATION FOLLOW UP REPORT**

On April 27, 1999, your Board requested progress reports on the Department of Children and Family Services' (DCFS) implementation of the recommendations in our April 1999 Fiscal Review. This is our fourth follow up report.

Background/Purpose

Our April 14, 1999 Fiscal Review evaluated the Department's internal controls and compliance with County fiscal policies and procedures. We also examined DCFS' administrative and foster care assistance claiming procedures for compliance with State and federal regulations. The audit included 80 recommendations for improvement.

The purpose of our follow up review was to assess the Department's progress in implementing the recommendations since our last follow up report in August 2001. In this follow up, we reviewed the 50 remaining recommendations that had not been previously reported as implemented.

Summary of Findings

Overall, the Department continues to make progress in implementing the recommendations. Based on our progress reports to date, the Department has implemented 49 (61%) recommendations, 22 (28%) recommendations remain in progress, seven (9%) recommendations remain not implemented, and two (2%) recommendations are no longer applicable.

In addition, we identified a number of additional internal control deficiencies related to the Department's processing of time cards and overtime, which could result in

employees being paid for overtime not worked. We recommend that the Department strengthen its internal controls in these areas and investigate whether employees were overpaid and to seek reimbursement as appropriate.

Conclusion

Considering the Department has made progress in implementing the audit's recommendations, we do not believe it is necessary to continue to report on the Department's implementation progress. However, we recommend that DCFS report semi-annually to your Board on the status of the outstanding recommendations until they are implemented. Our office plans to conduct another fiscal audit in calendar year 2003, and we will confirm the status of these remaining recommendations as part of that audit.

Review of Report

We discussed our report with DCFS management on July 11, 2002. They agreed with our appraisal of the Department's progress in implementing the recommendations, and will provide your Board with a written response within 60 days of the issuance of this report.

We thank DCFS management and staff for their cooperation and assistance during our review. Please call me or have your staff call DeWitt Roberts at (213) 974-0301 or Joseph Kelly at (213) 974-0340 if you have any questions.

JTM:DR:JK

Attachment

c: David E. Janssen, Chief Administrative Officer
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Audit Committee

Los Angeles County
Department of Children and Family Services

Fiscal Review – Fourth Recommendation Follow Up

July 2002

Prepared by:

Department of Auditor-Controller

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Department of Children and Family Services
Fiscal Review
Fourth Recommendation Follow Up Report

Background

On April 27, 1999, your Board requested progress reports on the Department of Children and Family Services (DCFS) implementation of the recommendations in our April 1999 Fiscal Review. This is our fourth follow up report.

STATUS OF RECOMMENDATIONS

The Fiscal Review included 80 recommendations for improvement. Based on our progress reports to date, DCFS has implemented 49 (61%) recommendations, 22 (28%) recommendations remain in progress, seven (9%) recommendations remain not implemented, and two (2%) recommendations are no longer applicable.

This follow up report focuses on the status of those recommendations that were in progress or not reviewed as of our last status report in August 2001. Recommendations are numbered consistent with the audit report.

Overview

Recommendations 1 and 2

DCFS management actively monitor on an ongoing basis the Department's compliance with required fiscal controls to identify problem areas and initiate corrective actions.

DCFS management utilize individuals independent of the various functions being monitored to perform the monitoring function and have them report directly to management.

Current Status: IN PROGRESS

Our original review disclosed significant internal control problems, indicating management was not adequately monitoring financial activities. In June 2000, DCFS management established an Internal Control Section. This Section performs compliance audits of various DCFS programs. However, although Section management stated that staff performed risk assessments to identify and review areas of high risk (e.g., overtime), we determined that staff did not document these assessments. In addition, the Section lacks independence as it reports directly to the Finance Director, the head of some of the same functions the Section monitors.

Budgeting**Recommendations 3 and 4**

The County divide the Administration budget unit into several smaller budget units.

If DCFS management believes such formal budgetary controls would be too restrictive, the Board of Supervisors and DCFS consider the Countywide Accounting and Purchasing System (CAPS) “presence control” option.

Current Status: NOT IMPLEMENTED

Our review disclosed that after consulting the Chief Administrative Office (CAO) regarding recommendations 3 and 4, DCFS management chose not to implement the recommendations. DCFS management stated that a breakdown of the Department's Administration budget into smaller budget units could result in operational restraints. In addition, both determined that utilizing the CAPS “presence control” option would not provide additional budget control, as a large portion of the budgeted appropriation cannot be directly linked to one specific organizational unit.

Recommendation 5

DCFS management establish detailed budgets for its bureaus, divisions, and major units/programs and allocate controllable costs to these organizational units.

Current Status: IN PROGRESS

DCFS has three budget units: the Administration, MacLaren, and Assistance Payments. These units are referred to as level 1 (the highest level) organizational units on CAPS. Our original review disclosed that DCFS staff was not allocating controllable costs to lower level units to establish accountability. For example, during fiscal year (FY) 1997-98, the Administration budget unit incurred \$146 million in services and supplies, fixed assets, and other expenditures. Excluding auto mileage and traveling expenses, Accounts Payable staff posted all but \$200,000 directly to the highest level unit.

Our current review disclosed that DCFS management has significantly increased the allocation of expenditures to lower level units (i.e., bureaus, divisions and major units/programs). For example, from July 1 to December 31, 2001, DCFS staff posted approximately 54% (\$34 million of \$63 million) of the Administration budget unit's services and supplies and other expenditures directly to various lower level units.

Recommendations 6 and 7

DCFS management provide detailed reports to the Director that compare actual versus budgeted activity.

DCFS management provide bureau and division chiefs with reports that compare actual versus budgeted expenditures within their units and hold them accountable for major variances.

Current Status: IMPLEMENTED

Our original review disclosed that except for Salaries and Employee Benefits and training expenditures, DCFS management did not prepare internal budgets for its individual bureaus, divisions and major units. During this review, we noted that Budget Services management now prepares budget to actual expenditure reports on a monthly basis for its bureaus, divisions, and major units. The Budget Officer distributes the reports to the Director, bureau chiefs, regional administrators, program managers, division chiefs, and CAO budget analysts. The reports indicate the budget amount, year-to-date expenditures, a full year projection of expenditures, and the amount over and under budget. The reports also provide explanations for major variances.

Recommendation 8

DCFS management ensure that:

- a) Collected Revenue is posted to the same account where the Department budgeted the revenue.***
- b) The other sales revenue budget includes only miscellaneous sales of goods and services.***
- c) Actual revenue is periodically compared to budgeted amounts for each revenue account and that material differences are investigated.***

Current Status: IMPLEMENTED

Our original review disclosed that in FY 1997-98, the Department incorrectly budgeted \$10.3 million in State and federal revenue as Other Sales revenue. However, DCFS posted the related collections of \$9.2 million to the correct State and federal revenue accounts. This resulted in a favorable actual vs. budget variance in State and federal revenue, and an unfavorable actual vs. budget variance in Other Sales revenue.

In this follow up, based on discussions with Budget Services management and a review of DCFS' July to December 2001 budget to actual results, we determined that DCFS incorrectly budgeted \$6.5 million in State and federal revenue to Other Sales Revenue. Budget Services management was aware of this error and corrected it in its FY 2002-03 budget.

Budget Services management now prepares monthly budget to actual revenue reports to ensure the receipt and proper posting of expected revenue.

Claiming

Recommendation 11

DCFS management ensure that foster care eligibility redeterminations are completed every six months as required by State regulations.

Current Status: NOT IMPLEMENTED

The Department determines federal, State or County eligibility for foster care on all children under its jurisdiction. Our original review disclosed that the Department did not complete foster care eligibility redeterminations every six months as required by State regulations. It is important to determine correct foster care eligibilities on a timely basis as regulations limit retroactive claiming adjustments to the most recent 18 months from the redetermination date.

In this follow up, we reviewed 30 cases and found that redeterminations on 20 (66%) were from 57 days to 896 days late. We found that seven of the 20 redeterminations that were still outstanding were, on average, 276 days past the 18 month retroactive claiming period. These findings are similar to those in our first several follow ups.

Recommendation 14

DCFS management require the Bureau of Information Technology Services (ITS) to reinstate its policy of documenting all program modifications on a Program Change Request or similar document.

Current Status: IMPLEMENTED

Our original review disclosed that DCFS did not maintain program modification documentation. As such, we recommended that DCFS document all program modifications.

DCFS' ITS management issued a directive in July 1999 outlining the process of documenting all program modifications on a Program Change Request. Based on interviews and a review of practices, we determined that ITS staff now logs and tracks all program change requests in a database.

Recommendation 15

DCFS management require a "user", independent of the Bureau of Information Technology Services, to test programming changes.

Current Status: IN PROGRESS

Our original review disclosed that system users, independent of programmers, were not verifying the correctness of program modifications.

As part of its July 1999 directive, ITS management required system users, independent of programmers, to sign the Signoff Form for program/modification changes, verifying the correctness of program modifications. ITS provided us access to their centralized file of the Signoff Forms for program/modification changes. Based on our review, we determined ITS does not have a tracking system to ensure the completeness of the centralized file. Although the Signoff Forms in the file included a section for signatures from the program and system users, some forms did not include a system user's signature for verification of program changes. ITS staff indicated that in some instances, the system user provided verifications through electronic mail. However, ITS management indicated that this is a departure from their policy and ITS staff must obtain the standard verification forms from system users.

Recommendation 16

DCFS management instruct the Bureau of Information Technology Services, in calculating the costs of Emergency Assistance – Emergency Shelter Care, to:

- a) Capture the costs, if any, of only the first 30 days of placement;***
- b) Exclude duplicate warrants;***
- c) Cap the claimed amount at the child's actual monthly rate.***

Current Status: IMPLEMENTED

Regulations allow counties to claim on their Administrative Claims the costs, if any, of the first 30 days of placements as Emergency Shelter Care (ESC), funded 85% State and 15% County. Counties can otherwise claim these expenses on their Assistance Claim with County funding ratios of between 30% and 100%. In our original review, we determined that the Department erroneously classified the first 30 days of all paid placements as ESC regardless of whether they were for the first 30 days of foster care. We also noted the computer program used to compile the amounts erroneously included duplicate warrants and did not cap the claimed amount at the child's actual monthly rate.

DCFS stated they corrected the underlying programming error that resulted in these miscalculations. In this follow up, we reviewed 30 cases and found the Department had taken corrective action to address the findings noted above.

Recommendations 17 and 18

Re-train staff in the Department's field offices on the proper procedures for gathering and preparing monthly Emergency Assistance (EA) eligible case data.

Enhance the EA eligible database to better serve its reporting needs.

Current Status: IMPLEMENTED

Subsequent to the audit, the Department provided additional training to field offices on the proper procedures for gathering and preparing monthly EA eligible case data. The Department also consolidated the tracking of EA case data in its Revenue Enhancement Division and enhanced the EA database to prepare various statistical management reports (e.g., number of new and expiring EA cases in a given period).

Procurement, Payment Practices and Warehousing**Recommendation 19**

DCFS management re-affirm the authority, role and responsibilities of the Procurement and Finance Sections.

Current Status: IN PROGRESS

Our original review disclosed that Procurement and Finance did not provide the necessary level of control and monitoring to ensure the Department's purchasing and payment functions were operating effectively and in accordance with established County guidelines and procedures. Accordingly, we recommended that management re-affirm the authority, role and responsibilities of Procurement and Finance, increase its purchasing and payment oversight functions, and take a more proactive role and greater responsibility for the administration of overall procurement functions throughout the Department. The implementation status of this recommendation was contingent upon the Department correcting their internal control weaknesses within Procurement and Finance.

DCFS has strengthened its controls over the procurement function by centralizing procurement operations, by providing ongoing training to Procurement and Finance staff, and by continuing to implement our Fiscal Review recommendations relating to the purchasing and payment functions. However, we note that recommendations addressing the use of miscellaneous vendor codes and the proper calculation of expenditure accruals are still in progress (Recommendations 38, 47, 48, and 51).

Recommendation 33

DCFS management ensure Procurement controls requisitions received to confirm all requisitions are processed and orders placed.

Current Status: IMPLEMENTED

Our original review disclosed that Procurement did not control pending requisitions to ensure the placement of all orders. As such, the only mechanism to identify unplaced orders was when the requestor complained.

Our second review disclosed that although DCFS management issued a directive instructing Procurement staff to process requisitions more timely, Procurement staff continued to process requisitions untimely. In addition, Procurement staff did not confirm requisition receipt with the requestor or date-stamp all requisitions received.

Our current review disclosed that Procurement staff processed 14 (93%) of the 15 requisitions we reviewed in a timely manner. In addition, Procurement staff date stamped the 15 requisitions. We reviewed written procedures and practices for processing incoming requests and found that Procurement staff confirms receipt of requests with the requestor and tracks each request on control logs.

Recommendation 34

DCFS management ensure Procurement staff uses sequential sub-order numbers and consistently records sub-order dollar amounts on blanket purchase order logs.

Current Status: IMPLEMENTED

Our original and second follow up reviews disclosed that Procurement staff did not issue sub-order numbers sequentially as required by County Fiscal Manual (CFM) Section 4.2.3. In addition, we noted that Procurement staff did not consistently record the dollar amount of the sub-orders on the purchase order log to enable Procurement to monitor all sub-orders placed and to determine remaining purchase order balances. In this follow up, we reviewed five blanket purchase order logs containing 419 sub-order entries. We noted that in all cases, Procurement staff used sequential sub-order numbers and recorded the sub-order purchase amounts.

Recommendation 38

DCFS management ensure Finance staff maximizes the use of vendor codes, as required by CFM Section 4.3.6.

Current Status: IN PROGRESS

CAPS maintains a Vendor Table (VEND) containing vendor codes for about 49,000 County vendors. CFM Section 4.3.6 requires that vendor specific codes be used to the fullest extent possible when processing vendor payments. Use of vendor codes reduces on-line data entry time, provides automated year-end reporting to the IRS, and provides summary reporting on Countywide purchasing activity. We previously noted during our original and second follow up reviews that Accounts Payable staff continued

to regularly process payment voucher transactions using a miscellaneous vendor code rather than a specific vendor code.

Our current review disclosed that DCFS management issued training bulletins in May 2000 and December 2001 reminding Accounts Payable staff to maximize the use of vendor codes, and DCFS management stated they continue efforts to minimize the use of miscellaneous vendor codes. We determined that the Department used miscellaneous vendor codes when they should have used a specific vendor code for approximately 1,153 (10%) of 11,867 payment voucher transactions from July 1, 2001 to February 19, 2002.

Recommendation 42

DCFS management re-emphasize CFM Section 4.2.3, which requires purchases of \$25 or less to be procured using petty cash.

Current Status: IMPLEMENTED

CFM Section 4.2.3 requires that, for efficiency, departments utilize petty cash instead of CAPS for purchases of \$25 or less. Our original review disclosed that DCFS staff processed five (25%) of 20 purchases for \$25 or less using CAPS instead of petty cash. During this follow up, we reviewed 15 payments for \$25 or less that Accounts Payable processed through CAPS. We noted that 15 payments were for expenditures for which a miscellaneous charge or a departmental expenditure encumbrance existed or for services. According to Accounts Payable management, the Department's unwritten policy was to use CAPS in this manner, in order to track payments to these vendors. This practice is reasonable. On July 1, 2002, DCFS management issued a written policy outlining when it is appropriate for staff to use CAPS to process payments that are \$25 or less.

Recommendations 43, 44 and 45

DCFS management require warehouse locations to maintain perpetual inventory records for high dollar value and other items with a high theft risk.

DCFS management instruct warehouse personnel to distribute items from the warehouse only upon receipt of an approved requisition.

DCFS management ensure that fixed asset responsibilities are properly separated.

Current Status: NOT IMPLEMENTED

Our original review disclosed that DCFS warehouse locations did not maintain a perpetual inventory listing as required by CFM Section 5.2.6 and that the listing they did maintain did not include some high dollar/high theft risk items. In addition, we noted instances where warehouse staff distributed items from warehouses without an

approved requisition and that some warehouse employees had incompatible duties. For example, at two warehouses, the same employee placed orders, shipped and received merchandise.

DCFS currently has two warehouses, one in Hawaiian Gardens and one consisting of some space in the Department of Public Social Services' warehouse in Commerce. In addition to these two warehouses, ITS is responsible for overseeing the inventory storeroom at DCFS' Lakewood office. Based on our review of inventory records and discussions with ITS management, we determined that the two warehouses primarily contained items stored for salvage, while the storeroom contained high value items. Accordingly, we reviewed ITS inventory records for the storeroom and found the following deficiencies:

- The inventory listing was not accurate. Our physical count of items in ITS' storeroom revealed discrepancies in the physical quantity versus the listed quantity for nine (75%) out of 12 items counted. For example, the inventory listing for a network monitoring system, valued at about \$18,000 each, showed a total quantity of five, but our count revealed a quantity of three. This resulted in a discrepancy totaling \$36,000.
- The inventory listing ITS maintains does not track receipts and distributions of storeroom items. Therefore, we were unable to reconcile discrepancies between the inventory listing and the physical inventory count. This also prevented us from testing whether an approved requisition exists for distributed items as ITS does not properly track distributions.
- A lack of separation of duties continues to exist as one employee is responsible for receiving and distributing items and maintaining the inventory list for the ITS storeroom.

Expenditure Accruals

Recommendations 47, 48, and 51

DCFS management require staff to accurately compute accounts payable.

DCFS management develop a mechanism to ensure accounts payable balances are monitored on an on-going basis and reduced as appropriate.

DCFS management require Finance to maintain accurate and complete contract and purchase order files.

Current Status: IN PROGRESS

Expenditure accruals (accounts payable) represent the amount owed at the end of a fiscal year that have not yet been paid. The Auditor-Controller provides instructions to

departments on how to account for and report these liabilities to help ensure the County has accurate records of its financial position and the results of operations.

Our original review disclosed that DCFS accrued remaining encumbrance balances as accounts payable rather than accruing only those expenditures related to goods/services received in the prior fiscal year. During this follow up, we reviewed five expenditure accruals, totaling \$426,503, set up as of June 30, 2001, and found that as of February 28, 2002, \$150,777 (35%) remained unpaid. Accounts Payable staff could not provide appropriate invoices or justification for the remaining balance. This indicates that Accounts Payable staff does not properly set-up, monitor or cancel accruals.

In addition, we tested \$436,536 in payments made in the first quarter of FY 2001-02 related to accounts payable set up at June 30, 2001. We determined that payment vouchers totaling \$427,535 (96%) were related to goods/services received prior to June 30, 2001. The payment vouchers for the remaining \$9,001 (2%) did not include a related packing slip to indicate the receipt date. Accounts Payable management stated that vendors do not always include a packing slip with shipments of goods. Accounts Payable staff subsequently requested the receiver to confirm the receipt of the goods at the invoiced amount and authorize payment of these invoices. However, the authorization did not indicate the date the DCFS staff received the goods.

Finally, we reviewed ten current year expenditures, totaling \$210,828, made in July and August 2001 and found that Accounts Payable staff properly paid for the goods/services using current year funds.

Trust Funds

Recommendation 52

DCFS management require Finance to review trust accounts yearly to determine if any could be closed.

Current Status: IN PROGRESS

Our original review disclosed that DCFS had five trust accounts that were inactive for over 32 months. DCFS closed four of the inactive accounts and transferred the funds to revenue. During this follow up, Finance management indicated that they review trust account activity semi-annually. We performed our own review of DCFS trust activity from July 2000 to March 2002 and identified six inactive trust accounts that had little or no activity during this time. Finance management had identified and closed only four of these trust accounts through its semi-annual review process and transferred the related balances, totaling \$63,278, to the General Donations Trust Fund (GDTF). Finance management did not review the other two accounts, each inactive for over 16 months, during its semi-annual review. Finance management should further investigate and close these accounts and review all trust accounts when performing its semi-annual review.

Recommendation 55

DCFS management centralize overpayment collections and ensure that collection and record keeping functions are properly separated.

Current Status: IMPLEMENTED

DCFS collects overpayments from foster care providers and posts the collections to the Overpayment Collections System maintained by Revenue Enhancement's Overpayment Unit in Covina. Our original review disclosed that both Finance and Revenue Enhancement Divisions collected overpayments and that the Revenue Enhancement's Overpayment Unit staff were responsible for both receiving overpayment collections and updating the Overpayment Collections System.

In this follow up, we interviewed the Overpayment Unit staff and observed the Unit's operations. We found that DCFS has centralized overpayment collections in the Overpayment Unit and the Unit properly separates collection and record keeping functions.

Recommendation 56

DCFS management ensure trust accounts are reconciled to CAPS monthly and that donation expenditures are transferred from trust to revenue timely.

Current Status: IMPLEMENTED

CFM Section 2.3.0 requires departments to reconcile their trust accounts to CAPS monthly. In addition, CFM Section 2.4.1 states that when a department expends donated funds, the department needs to transfer the cash from trust to an operating fund to recognize revenues. Recognizing revenue timely helps departments monitor their financial position throughout the fiscal year.

Our original review disclosed that DCFS staff did not reconcile the trust accounts monthly and did not transfer cash from trust to the Department's operating fund timely. In this follow up, we interviewed Finance staff and reviewed trust fund reconciliations and trust transfers. We determined that Finance staff performs the reconciliations monthly and, based on our review of ten payment transactions, Finance staff transfers cash to the operating fund on a timely basis.

Recommendation 57

DCFS management takes steps to spend donations from the General Donation Trust Fund in a timely manner by developing general guidelines requiring all regions/offices to monitor sub-accounts' collection and expenditure activities and to ensure large balances are not accumulated.

Current Status: IN PROGRESS

The Finance Division deposits donations received from DCFS' various regions and offices into the GDTF, a revolving cash trust fund. Finance maintains subsidiary ledgers to record donations received, donations spent, and the regions'/offices' balance. On a quarterly basis, Finance sends the regions/offices a detailed report showing the sub-account's activity.

Our original review disclosed that DCFS did not monitor the GDTF to ensure that the Department spends donations within a reasonable period. We noted that during FY 1997-98, DCFS received \$504,986 in donations and spent only \$210,812, leaving an account balance of \$630,768 in unspent donations as of June 30, 1998. A review of the subsidiary ledgers disclosed that eight (25%) of the 32 sub-accounts had no, or very little, expenditures during FY 1997-98.

In August 2000, Finance management issued instructions to Program Managers and Regional Administrators outlining responsibilities pertaining to the donation trust funds, including instructions to monitor account balances, ensure large balances do not accumulate, and a requirement to submit spending plans of the funds to the respective Bureau Directors.

During this follow up, we noted that Program Managers are doing a better job of spending current year donations timely. However, there is still a significant balance from prior years in the GDTF and the Family and Children Services Trust Fund (FCSTF), a second revolving cash trust fund, which managers need to develop plans to spend. The ending balances at June 30, 2001 in the GDTF and FCSTF were \$383,058 and \$310,614, respectively.

Recommendation 58

DCFS management ensure that subsidiary ledgers are maintained for general donations not associated with a specific region or office.

Current Status: IMPLEMENTED

CFM Section 2.1.3 requires departments to maintain records detailing the source and disposition of all trust funds. Our original review disclosed that although DCFS maintained subsidiary records for 32 regions/offices, DCFS staff did not maintain detailed records for donations not associated with a specific region/office. Instead, DCFS staff calculated unassigned general donations by obtaining the GDTF balance and subtracting total balances of the sub-accounts.

In this follow up, we noted that at the end of FY 2000-01, Finance management transferred the unassigned general donations from the GDTF, totaling \$180,407, into the FCSTF account. Finance maintains a ledger and detailed records for this account.

Recommendation 59

DCFS management develop guidelines indicating the types of allowable donation expenditures.

Current Status: IN PROGRESS

Our original review disclosed that DCFS did not always utilize donated funds to directly benefit the children and families DCFS serves. We also noted that DCFS' written guidelines did not specifically state the types of allowable donation expenditures.

Our third review disclosed that the Finance Division re-issued a bulletin in August 2000 indicating that donated funds must not benefit Departmental employees. However, the bulletin did not specifically state the types of allowable donation expenditures, as we recommended. In addition, we noted a number of instances where DCFS staff used Trust funds to buy theme park tickets and entertainment books for Departmental employees.

In this follow up, we found the Department still has not included in its procedures the various types of allowable donation expenditures. As such, we reviewed 20 FCSTF disbursements, from July 2001 to February 2002, to determine whether the expenditures directly benefited the children under DCFS' care and whether Finance staff maintained appropriate documentation to support the expenditures. We found that the 20 funding requests, prepared by case social workers, indicated that the funds would directly benefit DCFS children. However, Department policy requires that the case social workers submit receipts to ensure the funds were spent on the intended purpose. Finance staff could not locate supporting receipts for 8 (40%) trust disbursements totaling \$2,005. Finance staff indicated that the Division does not actively follow up to ensure case social workers subsequently submit the required receipts.

Recommendation 60

DCFS management ensure revolving fund checks used for donation expenditures include the phrases "Amounts over \$500 require two signatures" and "Not good for over \$1,000".

Current Status: IMPLEMENTED

CFM Section 4.4.4 requires revolving fund checks to contain the phrases "Amounts over \$500 require two signatures" and "Not good for over \$1,000." Our original review disclosed that DCFS' revolving fund checks for donation expenditures from the FCSTF and the GDTF did not contain the required phrases. Our third follow up review disclosed that although checks from both revolving fund accounts did contain the appropriate phrases, two (20%) of ten expenditures we reviewed from the FCSTF account exceeded the \$1,000 limit.

In this follow up, we reviewed the revolving fund logs for donation expenditures from the FCSTF and GDTF, which contained 188 payments from July 2001 to March 2002. We identified one payment, issued in September 2001, which exceeded the \$1,000 limit. Finance management detected this exception after issuance and re-emphasized the Department's check issuance policy to staff. A violation has not occurred in the last six months.

Recommendation 61

DCFS management delete the supervisor responsible for reviewing and approving the General Donation Trust Fund and the Children and Family Services Trust Fund bank reconciliations from the authorized signer list.

Current Status: IMPLEMENTED

Our original review disclosed that the individual responsible for reviewing and approving the GDTF and FCSTF bank reconciliations also had check signing ability on the related revolving fund accounts. In this follow up, we interviewed staff, reviewed the listing of authorized check signers, and determined that DCFS management deleted the supervisor responsible for reviewing and approving the bank reconciliations from the listing of authorized check signers.

Payroll Processing

Recommendations 62 and 63

DCFS management formally notify all employees of the DCFS policy prohibiting more than 96 overtime hours per month.

DCFS management centrally monitor employees for compliance with the policy and take corrective action when violations occur.

Current Status: IN PROGRESS

Our original review disclosed that although DCFS policy prohibited employees from working more than 96 overtime hours in one month, many employees exceeded this amount. During FY 1997-98, 19 employees averaged at least 96 overtime hours per month, including one employee who averaged 150 hours per month. In addition, we found some instances where employees worked 14 or more hours a day for several consecutive days.

In July 2000, DCFS management issued a bulletin re-iterating its overtime policy. The bulletin also outlined the approval process and consequences for non-compliance with the overtime policy. The overtime policy also appears on DCFS' intranet, LA Kids.

To evaluate whether DCFS management monitors employees for compliance with the policy, we interviewed Human Resources staff and reviewed overtime monitoring

reports. We determined that Human Resources staff compiles reports listing employees that exceeded 96 hours in overtime in one month by reviewing the County-Wide Timekeeping and Payroll/Personnel System (CWTAPPS) "Overtime Activity Report" each pay period, identifying employees with high overtime hours, and manually adding these hours to the hours from the other pay period in the month. If the employee exceeds 96 overtime hours, Human Resources staff lists the employee on an overtime exception listing and distributes the listing to the appropriate Regional Administrator (RA). RAs are responsible for taking corrective action, which may include discipline or restriction from working overtime. Based on our review of these reports, we identified the following issues.

- **Human Resources staff distributes overtime exception listings untimely or not at all.** For example, we requested the overtime exception listings from September 2001 to January 2002. We found that Human Resources staff did not distribute an October listing. In addition, Human Resources staff did not distribute the overtime exception listings for November and December 2001 until February 2002. Issuing reports untimely or not at all limits the RA's ability to monitor staff compliance with the Department overtime policy.
- **Human Resources staff compiles incomplete Overtime Exception Listings.** We selected 15 employees who exceeded the 96 hour overtime limit in the months of September, November or December 2001 and cross-referenced them to the respective overtime exception listings. Six (40%) of the 15 employees were not on the listings.
- **Human Resources does not follow up with RAs to ensure supervisors have taken corrective measures.** For example, Human Resources distributed the November and December overtime exception listings to RAs on February 26, 2002, and required that RAs respond by March 5, 2002 with an explanation for the overage and the corrective action taken. However, we found that as of March 28, 2002, RAs had not responded regarding eight (89%) out of the nine employees we reviewed who were included in the overtime exception listings.

To ensure the RAs receive a comprehensive listing of employees exceeding the 96 hour overtime policy, Human Resources staff should consider discontinuing the manual compilation of overtime exception listings and instead develop CWTAPPS reports that list all employees exceeding the 96 hour overtime policy for a given month.

Untimely and incomplete overtime exception listings and inadequate follow up can result in employees continuing to violate the overtime policy. For example, based on our review of overtime reports from July 2001 to January 2002, 10 employees exceeded the 96 hour overtime limit in two or more months. One employee violated the overtime policy in each of the seven months, averaging 135 hours overtime per month and reaching 170 overtime hours in one month.

Recommendation 64

DCFS management ensure all overtime worked is properly approved.

Current Status: IN PROGRESS

The Department uses the *Request for Time Off or Overtime form* (DCFS 158-1) to document pre-approval of overtime. In our original review, we selected 15 employees who received overtime pay for the months of October 1997, January 1998 and March 1998 to determine if the overtime was pre-approved. We noted 21 instances in which a DCFS 158-1 form was missing or not approved

In this follow up, in order to determine if supervisors approved overtime worked, we reviewed time cards for 16 employees who received overtime pay for the month of October or November 2001. We requested Payroll to provide the DCFS 158-1 forms for all overtime hours on the time cards. Payroll was unable to provide the DCFS 158-1 forms for three (19%) of the 16 employees for one or more days during the month. Thus, we were unable to determine whether the overtime was pre-approved for these days, as required under DCFS policy.

During our testwork, we noted additional problems related to the Department's processing of overtime pay. Specifically, for 11 (69%) of 16 employee time cards we reviewed, we noted one or more of the following problems:

- **Payroll staff uses inappropriate source documents to enter overtime in CWTAPPS.** Payroll staff inputs overtime for each employee into CWTAPPS on a daily basis, based on the DCFS 158-1. This form is an inappropriate source document because it *authorizes* an employee to work overtime but does not confirm that the employee actually worked the overtime. As a result, an employee may receive pay for overtime hours authorized that the employee did not work.

We found that Payroll staff does compare the daily overtime hours on employee time cards with the hours Payroll staff previously entered into CWTAPPS based on the DCFS 158-1. If there are differences, Payroll returns the time card to the employee's supervisor requesting a resolution. The supervisor may add overtime hours to the time card or may reply that the employee did not work the overtime, in which case Payroll deletes the overtime hours from CWTAPPS. However, if a supervisor does not reply to Payroll by the CWTAPPS time card processing deadline, Payroll leaves the overtime hours in CWTAPPS and the employee receives overtime pay for the overtime hours on the DCFS 158-1.

In addition, if Payroll receives a DCFS 158-1 after the CWTAPPS time card processing deadline, Payroll does not request a resolution from the supervisor but enters the overtime in CWTAPPS based on the DCFS 158-1. Of the 16 employees tested, we determined that four (25%) employees received pay for a

total of 171 overtime hours which appeared on DCFS 158-1 forms, but which did not appear on the employees' time cards.

- **Payroll often enters overtime in CWTAPPS late.** CFM Section 3.1.6 requires that all variances and/or hours worked must be promptly reported to the department's payroll section. In addition, DCFS policy requires that supervisors submit the DCFS 158-1 to Payroll within the pay period in which the employee works overtime. However, we found that for five (31%) of 16 employees, DCFS Payroll entered overtime in CWTAPPS weeks, sometimes months, after the pay period had ended. For example, we found that one employee's overtime hours for the pay period ending 8/31/01 appeared in the Overtime Activity Report for accrual period 11/15/01, two months after the pay period had ended. Another employee's overtime hours for the period ending 7/31/01 appeared in the Overtime Activity report for accrual period 12/15/01, four months after the end of the pay period.

Payroll management stated that the need to obtain required signatures on the DCFS 158-1 can delay timely receipt and processing of the forms. In addition, Payroll staff noted that some employees stated they submitted the DCFS 158-1 forms late because they wanted to accumulate overtime pay. This is an indication that some supervisors return the DCFS 158-1 to employees. However, CFM Section 3.1.6 states that original approved time documents should not be returned to or be accessible by employees.

Untimely payment of overtime can affect departmental overtime budgets by understating actual overtime expense for any one period, can allow employees to exceed the monthly 96 hour limit on overtime without detection, and can lead to complaints by employees or labor unions.

- **Supervisors often turn in incomplete or incorrect time cards and do not initial corrections.** CFM Section 3.1.6 states that employees and supervisors must sign time cards verifying the accuracy of the hours on the time card. However, we noted that on eight (50%) of the 16 employees' time cards, the hours in the total overtime column were less than the sum of the overtime hours for each day. These discrepancies could be due to mathematical errors or from supervisors correcting time cards by adding overtime hours as requested by Payroll. However, if supervisors did add overtime hours on the timecard, they did not initial and date the changes, as they should have to verify hours were actually worked.

Before signing time cards, supervisors should check them for accuracy and completeness, as required by CFM Section 3.1.6. Supervisors should also initial and date any changes they make to the time cards.

The Department needs to tighten its internal controls over the recording of overtime into CWTAPPS. To ensure employees are only paid for overtime worked, the Department should require Payroll to input overtime worked only from an approved time card and

enter overtime in CWTAPPS timely. In addition, the Department should conduct a comprehensive review within 90 days to investigate the possibility that employees may have received overtime pay in FY 2001-02 for overtime not actually worked, and to seek reimbursement of any overpayments.

Additional Recommendations

DCFS management:

- 1. Require Payroll staff to input overtime worked from an approved employee time card and enter overtime in CWTAPPS timely.***
- 2. Conduct a comprehensive review within 90 days to investigate the possibility that employees may have received overtime pay in FY 2001-02 for overtime not actually worked, and to seek reimbursement of any overpayments.***

Recommendation 65

DCFS management revise the Request for Time Off or Overtime form to include a space for managers to indicate their approval date.

Current Status: NOT IMPLEMENTED

DCFS policy requires that employees receive prior written approval to work overtime. During our original review, we could not determine if supervisors approved overtime in advance because the *Request for Time Off or Overtime* form (DCFS 158-1) did not contain a space for managers to indicate the date of their approval. In this follow up, we found that the form DCFS 158-1 still does not include a space for managers to indicate their approval date.

Recommendations 66 and 67

DCFS management provide each pay location with a listing of employees receiving bilingual bonuses and require managers to review the list at least annually to ensure the bonuses are still applicable.

DCFS management establish a policy for managers, upon receiving a transferred employee, to contact their pay location timekeeper to determine if the employee is receiving a bonus that should be canceled.

Current Status: IN PROGRESS

Our original review disclosed that DCFS management did not re-evaluate employee bilingual bonus eligibility annually or when an employee received a transfer or promotion.

In our current follow up, we determined that Human Resources management conducted a bilingual bonus review in October 2001. We selected five pay locations and found that Human Resources staff sent the October 2001 bilingual bonus reports to the pay locations. Human Resources instructed managers to indicate if each employee was performing a bilingual task, sign the report and return it. However, Human Resources did not receive responses from managers for 92 (32%) of the 292 employees at these locations who were receiving bilingual bonuses at the time of the report. Human Resources staff did not follow up with the managers who submitted incomplete responses or who failed to respond at all. Human Resources staff needs to follow up to ensure all managers indicate for each employee whether the bilingual bonus should continue or not.

In July 2000, DCFS management issued a bulletin stating that employees transferred to a different Unit/Division/Bureau or promoted would no longer receive a bilingual bonus unless the transfer or promotion paperwork contains explicit instructions that the bonus remains applicable. In this follow up, we selected ten employees who received a bilingual bonus and who recently received a promotion or transfer and reviewed the associated paperwork to verify that Personnel re-evaluated the bilingual bonus. We found that Personnel staff did not re-evaluate the bilingual bonus eligibility for two (20%) of the ten employees. These employees received a “paired class” promotion (e.g., promotion from CSW I to CSW II), as opposed to a functional promotion (e.g., CSW III to Supervisor). Personnel staff indicated that when an employee receives a “paired class” promotion, they do not send out a re-evaluation form to the employee’s supervisor to re-evaluate the employee’s bilingual bonus eligibility. In order to consider this recommendation implemented, Personnel management must ensure Personnel staff re-evaluate bilingual bonus eligibility for all employees receiving a promotion, regardless of the type of promotion.

Recommendations 68 and 69

DCFS management, with the assistance of the CAO and Department of Human Resources, establish written guidelines to clarify application of the evening/night bonus rules and provide supervisory staff with training.

DCFS management ensure that future MOUs are revised to correspond to the written guidelines.

Current Status: IN PROGRESS

Our original review disclosed some confusion regarding the application of Los Angeles County Code Section 6.10.020 “evening/night bonus” rules. The lack of clarity led to inconsistencies in the Department’s application of the rules and resulted in some employees filing grievances against the Department.

In this follow up, we found that DCFS, in consultation with the CAO and the Department of Human Resources (DHR), had developed written guidelines to clarify the application of the evening/night bonus rules. However, a labor union filed a grievance and

prevailed, so DCFS delayed implementation of these guidelines. The department needs to implement revised guidelines, with the assistance of the CAO and DHR and with the approval of the union. Once approved, the Department will revise the MOUs appropriately.

Travel Expenses

Recommendation 70

DCFS management develop a control log of Court ordered trips and use the log to reconcile to travel agent billing statements and monitor the validity of trips.

Current Status: IMPLEMENTED

Our original review disclosed DCFS staff did not maintain a log of Court ordered trips or reconcile Court ordered trips to the travel agent billing statements. In addition, DCFS did not monitor the validity of these trips. In this follow up, we found that DCFS developed a Court ordered trip log and staff utilized the log to monitor the validity of the trips and reconcile to travel agent billing statements.

Recommendation 71

DCFS management require Finance to reconcile the American Express billing statements to authorized travel requests and Court Orders.

Current Status: IN PROGRESS

Our original review disclosed that DCFS staff did not reconcile travel agent billing statements to the authorized travel request. In this follow up, we determined that Finance staff now reconciles travel agent billing statements. However, Finance staff reconciles the statements received from the Auditor-Controller's Office (A-C) untimely.

We requested Finance staff to provide 11 months of reconciliations, from July 2000 through May 2001. Finance staff completed the reconciliations an average of 272 days after receiving the statements from the A-C.

Recommendation 72

DCFS management limit the number of individuals who can order airline tickets through travel agents to a small number of employees.

Current Status: IMPLEMENTED

Our original review disclosed that DCFS had an excessive number of authorized travel coordinators and we recommended DCFS management evaluate the number of authorized travel coordinators and reduce as appropriate.

Our current review disclosed that DCFS management has decreased the number of employees who can order airline tickets through travel agents from 105 in April 1999 to 86 in January 2002. DCFS management stated that the Department needs these travel coordinators and backups for the 61 office locations requiring travel arrangements. DCFS management provided each travel agent with the revised listing of employees authorized to make travel arrangements and requested them to only accept orders from these employees.

Recommendations 73 and 74

DCFS management provide travel agents with a listing of DCFS employees authorized to purchase tickets and request them to only accept orders from these employees.

DCFS management develop a methodology to ensure travel agents can authenticate the caller's identity.

Current Status: IMPLEMENTED

Our original review disclosed that travel agents accepted ticket orders from anyone who provided DCFS' fund organization number. During this follow up, we determined that DCFS provided each travel agent with a listing of employees authorized as travel coordinators and requested them to only accept orders from these employees. In addition, DCFS management provided each travel agent with identifying information unique to each authorized employee to authenticate the caller's identity.

Recommendation 75

DCFS management instruct Finance's secretary to maintain a control log of Southwest Airline vouchers issued, issue the vouchers only upon receipt of an approved travel request or Court Order, and file used vouchers in a systematic order.

Current Status: NO LONGER APPLICABLE

This recommendation is no longer applicable as the Southwest Travel Voucher Program ceased in March 2001.

Recommendation 76

DCFS management monitor to ensure employees submit expense claims and refund checks timely.

Current Status: IN PROGRESS

Our original review disclosed that of 14 travel advances reviewed, supporting documentation for one could not be located, expense claims for eight advances were

submitted untimely, three employees owed the County a refund check that remained outstanding for at least seven months, and four advances that were issued from the revolving fund did not indicate an emergency.

For this follow up, we reviewed the supporting documentation of 15 employee travel advances and determined that a justified emergency existed for each. However, we noted that 10 employees submitted expense claims and four of these employees submitted reimbursements of unused advances to the Finance Division an average of 30 days after the two week deadline. Fiscal Management has unwritten procedures to initiate follow up efforts when an employee does not submit the expense claims and/or reimbursements by the two week deadline. However, based on our review, Finance staff initiated follow up efforts for six (60%) of the ten employees an average of 23 days after the deadline date.

Recommendation 77

DCFS management enhance the Travel Advance Log to include additional fields to simplify its monitoring efforts.

Current Status: IMPLEMENTED

Our original review disclosed that the Travel Advance Log did not include appropriate fields to monitor the untimely submission of expense claims. During this follow up, we determined that the Travel Advance Log now includes a field that calculates the date expense claims are due and Finance staff use this field to monitor the timely submission of expense claims.

Recommendation 79

DCFS management develop travel policies and procedures.

Current Status: IN PROGRESS

The CFM, Appendix C, provides departments with overall guidance regarding travel. Departments are to incorporate this appendix into departmental specific policies and procedures. Our original review disclosed that DCFS did not maintain written travel policies and procedures.

In this follow up, we determined that DCFS developed draft travel policies and procedures, which we reviewed. The Department expects to issue the policies and procedures by summer 2002.

**Department of Children and Family Services Fiscal Review
Fourth Recommendation Follow Up
Status of Recommendations**

Recommendations in Progress

1. DCFS management actively monitor on an ongoing basis the Department's compliance with required fiscal controls to identify problem areas and initiate corrective actions. (#1)
2. DCFS management utilize individuals independent of the various functions being monitored to perform the monitoring function and have them report directly to management. (#2)
3. DCFS management establish detailed budgets for its bureaus, divisions, and major units/programs and allocate controllable costs to these organizational units. (#5)
4. DCFS management require a "user", independent of the Bureau of Information Technology Services, to test programming changes. (#15)
5. DCFS management re-affirm the authority, role and responsibilities of the Procurement and Finance Sections. (#19)
6. DCFS management ensure Finance staff maximizes the use of vendor codes, as required by CFM Section 4.3.6. (#38)
7. DCFS management require staff to accurately compute accounts payable. (#47)
8. DCFS management develop a mechanism to ensure accounts payable balances are monitored on an on-going basis and reduced as appropriate. (#48)
9. DCFS management require Finance to maintain accurate and complete contract and purchase order files. (#51)
10. DCFS management require Finance to review trust accounts yearly to determine if any could be closed. (#52)
11. DCFS management takes steps to spend donations from the General Donation Trust Fund in a timely manner by developing general guidelines requiring all regions/offices to monitor sub-accounts' collection and expenditure activities and to ensure large balances are not accumulated. (#57)
12. DCFS management develop guidelines indicating the types of allowable donation expenditures. (#59)
13. DCFS management formally notify all employees of the DCFS policy prohibiting more than 96 overtime hours per month. (#62)

14. DCFS management centrally monitor employees for compliance with the policy and take corrective action when violations occur. (#63)
15. DCFS management ensure all overtime worked is properly approved. (#64)
16. DCFS management provide each pay location with a listing of employees receiving bilingual bonuses and require managers to review the list at least annually to ensure the bonuses are still applicable. (#66)
17. DCFS management establish a policy for managers, upon receiving a transferred employee, to contact their pay location timekeeper to determine if the employee is receiving a bonus that should be canceled. (#67)
18. DCFS management, with the assistance of the CAO and Department of Human Resources, establish written guidelines to clarify application of the evening/night bonus rules and provide supervisory staff with training. (#68)
19. DCFS management ensure that future MOUs are revised to correspond to the written guidelines. (#69)
20. DCFS management require Finance to reconcile the American Express billing statements to authorized travel requests and Court Orders. (#71)
21. DCFS management monitor to ensure employees submit expense claims and refund checks timely. (#76)
22. DCFS management develop travel policies and procedures. (#79)

Recommendations Not Implemented

1. The County divide the Administration budget unit into several smaller budget units. (#3)
2. If DCFS management believes such formal budgetary controls would be too restrictive, the Board of Supervisors and DCFS consider the Countywide Accounting and Purchasing System (CAPS) “presence control” option. (#4)
3. DCFS management ensure that eligibility redeterminations are completed every six months as required by State regulations. (#11)
4. DCFS management require warehouse locations to maintain perpetual inventory records for high dollar value and other items with a high theft risk. (#43)
5. DCFS management instruct warehouse personnel to distribute items from the

warehouse only upon receipt of an approved requisition. (#44)

6. DCFS management ensure that fixed asset responsibilities are properly separated. (#45)
7. DCFS management revise the Request for Time Off or Overtime form to include a space for managers to indicate their approval date. (#65)